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NUMAC ENERGY

BUILDING MOMENTUM

1996 ANNUAL REPORT

Profile

Based in Calgary, Alberta, Numac Energy Inc. is engaged in the exploration for, and development, production and marketing of crude oil, natural gas and natural gas liquids in western Canada. Numac Energy ranks among the top 25 crude oil and natural gas producing companies in Canada.

Numac's reserves of 127 million barrels of oil equivalent and 2.2 million net acres of undeveloped land in the Western Canadian Sedimentary Basin, combined with its considerable financial strength, position the Company for sustainable growth in production, cash flow and profitability.

Numac's common shares are listed for trading on the Toronto, Montreal and American stock exchanges under the symbol NMC.

Vision

Establish Numac as the company of choice for investors, partners and employees by generating superior returns through successful exploration, acquisition, production and marketing of hydrocarbon resources.

Objective

To double production by the year 2000, thereby producing in excess of 60,000 barrels of oil equivalent per day and establishing Numac as one of the top 15 Canadian oil and gas exploration and production companies.

Annual Meeting

The Annual Meeting of the Shareholders of Numac Energy Inc. will be held at 9:00 a.m. (Calgary time) on Thursday, May 22, 1997 in the Metro Ballroom at the Metropolitan Centre in Calgary, Alberta. Shareholders are encouraged to attend. Those unable to do so are asked to sign and return the Form of Proxy mailed with this report.

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Highlights

	1996	1995
FINANCIAL		
(thousands of dollars, except per share and per unit amounts)		
Revenue	239,997	227,727
Funds from operations	122,058	117,500
Per share	1.30	1.26
Net income (loss)	16,933	(178,800)
Per share	0.18	(1.91)
Capital expenditures, including acquisitions	192,715	116,772
Total assets	689,596	612,056
Debt, net of working capital	161,373	136,054
Shareholders' equity	388,358	349,948
OPERATIONS		
Production		
Crude oil and natural gas liquids (barrels per day)	18,860	19,097
Natural gas (millions of cubic feet per day)	129	151
Expenses per BOE of production		
Operating expense	3.92	3.92
General and administrative expense	0.81	0.87
Proved and probable reserves		
Crude oil and natural gas liquids (thousands of barrels)	70,432	63,798
Natural gas (billions of cubic feet)	562	571
Undeveloped land holdings (thousands of net acres)		
Canada	2,248	994
International	295	295
Wells drilled		
Gross	283	102
Net	118	49
Success rate	93%	78%

To our Shareholders

Numac is building momentum for sustained growth. The initiatives of the past year, including the refocusing and balancing of our capital program, have positioned the Company for the future. The results of these efforts, while evident in the past year, will become more pronounced in 1997 and subsequent years. Some of the more significant 1996 accomplishments that we are building upon include:

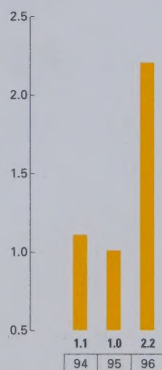
- strong earnings performance and increased cash flow;
- production replacement of 149 percent at a substantially improved replacement cost;
- greatly expanded exploration and development activity which resulted in 283 wells drilled, almost three times the number drilled in 1995, with a 93 percent success rate;
- a return to production growth with crude oil and liquids production forecast to exceed 22,500 barrels per day and natural gas production forecast to exceed 160 million cubic feet per day by year-end 1997;
- the acquisition of 828,000 acres of highly prospective freehold title land in west central Saskatchewan and growing volumes of high netback royalty production through the purchase of Smart On Resources Inc.;
- the acquisition of 195,000 acres of undeveloped land from third parties and through crown land sales, thereby expanding and consolidating Numac's interests in core growth areas;
- the expansion and consolidation of Numac's landholdings at Manatokan, in the Cold Lake area of east central Alberta, which now comprise over 53,000 net acres of oil sands leases estimated to contain in excess of four billion barrels of oil in place;

- initiation of an aggressive development program at Manatokan with targeted production of 5,000 barrels of oil per day by early 1998 and 10,000 barrels per day by early 1999;
- the addition of significant volumes of light gravity crude oil production from successful vertical and horizontal drilling in southeast Saskatchewan;
- the establishment of an inventory of high impact new venture exploration prospects to drive future growth; and
- the achievement of efficiencies in both operating and administrative costs.

Strategic Plan

Numac's strategic plan has been built on its many strengths. These include an enviable undeveloped land position in western Canada totalling 2.2 million net acres, a balanced inventory of long life reserves and production, technical expertise, and competitive advantages in infrastructure and marketing. In addition, Numac has substantial financial capacity, supported by a debt to cash flow ratio of only 1.3 times, as well as a growing stream of internally generated cash flow.

**Undeveloped
land holdings in
western Canada**
(millions of net acres)



Key elements of the plan include:

- a sharply focused capital program balanced for risk and reward, which includes an appropriate component of high impact exploration opportunities;
- the maintenance of a balanced inventory of crude oil and natural gas reserves and production;
- aggressive exploitation of our core producing properties including Joffre, Crystal, Ferrier and Suffield in Alberta, Elswick and Silverton in Saskatchewan, and Tommy Lakes and Martin in northeast British Columbia;
- the development of heavy oil as a core resource;
- the pursuit of break-out opportunities that can provide substantial step growth, such as our Manatokan heavy oil project and the recent acquisition of a dominant undeveloped land base in west central Saskatchewan; and
- the maintenance of a strong balance sheet and the financial flexibility to pursue substantial acquisitions as a means of realizing our objective of increasing critical mass.

Exploration and Development

Exploration and development activity in 1996 included the drilling of 118 net wells, resulting in 83 net oil wells and 28 net gas wells, for a success rate of 93 percent. The high number of wells drilled, as well as the success rate, reflect two crucial aspects of Numac's strategic thrust, namely, increased drilling in core areas and an appropriate balance of risk and reward.

Exploration drilling successes early in 1996 included natural gas discoveries at Redeye and Conroy and a light gravity oil discovery at Black,

all located in the Tommy Lakes-Silver-Martin corridor of northeast British Columbia. Successes later in the year included gas discoveries at Red Creek in northeast British Columbia and at Ante Creek in west central Alberta, and a light gravity crude oil discovery at Hastings in southeast Saskatchewan.

A particular focus of the 1996/1997 winter drilling program has been in northeast British Columbia which has combined exploration drilling with aggressive exploitation activity to follow-up earlier discoveries. The results of this program have exceeded expectations. Exploration success at Redeye, Martin Creek and Pickel, north of Fort St. John, has resulted in five new pool discoveries that are being actively delineated. Sixteen wells will be drilled in the area in the first quarter of 1997.

Exploration drilling at Tommy Lakes together with follow-up drilling of 1996 exploration successes immediately to the southeast at Conroy/Black has resulted in seven gas wells and two oil wells. In excess of 20 million cubic feet per day of new gas production will be brought on stream from these areas by mid-1997.

Net wells drilled



In southeast Saskatchewan, Numac has been successful in expanding both reserves and production through a combination of new pool discoveries, acquisitions and the application of advanced technology. In the first quarter of 1997, the first four wells of a 20-well horizontal and vertical drilling program at Hastings, Elswick and Tatagwa have delivered 800 barrels per day of new light gravity oil production. During 1996, Numac expanded its undeveloped landholdings in these plays to over 50,000 net acres.

To maintain an exposure to large reserve potential, the Company has a dedicated group pursuing high impact exploration opportunities. Approximately 15 percent of the capital budget has been allocated to this program. Numac's 1997 new venture exploration plans include a multi-well program in the Gunnell and Peggo-Tooga areas of northeast British Columbia to evaluate a number of natural gas prospects in the Jean Marie formation. The Company controls 83,000 gross (61,000 net) acres of undeveloped land in these areas.

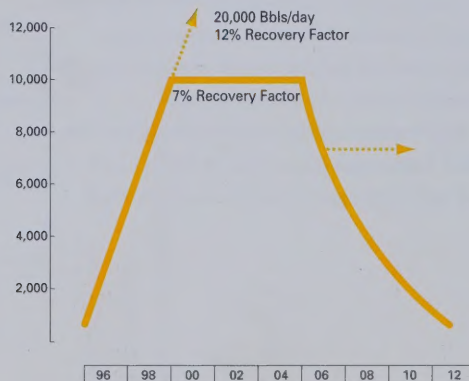
One of Numac's new strategic initiatives has been the development of its Manatokan heavy oil property in the Cold Lake region of east central

Alberta. This 100 percent-owned, 53,000 acre land block is estimated to have in excess of four billion barrels of oil in place. The Manatokan project was initiated in the fall of 1995 and has moved rapidly from the evaluation stage to commercial status. Expenditures of \$17 million in 1996 included the drilling of 21 delineation wells and three nine-well production pads. Capital expenditures for 1997 include the investment of a further \$40 million for the drilling of 100 wells, including a minimum of 10 multi-well production pads, and the construction of a central battery with a capacity of 7,000 barrels of oil per day. Production from the project is currently 1,400 barrels per day and is planned to increase to approximately 5,000 barrels per day by early 1998 and 10,000 barrels per day by early 1999.

The Manatokan development plan is based on a recovery factor of seven percent. However, based on results to date, primary recovery rates exceeding 12 percent are not unrealistic, which could lead to a more aggressive program and a sustained production level exceeding our current forecast. This project will provide a substantial cash flow stream and establishes the cornerstone of Numac's heavy oil growth strategy.

Manatokan production profile

(barrels of oil per day)



Acquisitions

Complementing our initiative at Manatokan, we expanded our heavy oil exposure late in 1996 with the acquisition of Smart On Resources Inc. for \$51.2 million. Key features of the acquisition included:

- 828,000 acres of highly prospective undeveloped freehold title lands in the much sought-after low-cost region of west central Saskatchewan. These lands, which form a checkerboard pattern over an approximate 3,000 square mile area, include 665,000 acres currently subject to an exploration agreement. Pursuant to the agreement, which has a remaining term of three years, third parties have committed to spend a minimum of \$50 million to explore and develop this acreage. Production generated by the third parties is subject to a gross royalty to Numac of up to 15 percent;
- 163,000 acres of undeveloped freehold land which have to date reverted to Numac under the mandatory annual relinquishment requirements of the exploration agreement. These lands, and future reversions, provide Numac with a unique opportunity to build a new core area with shallow, multi-zone drilling potential, year-round operational access, and excellent heavy oil potential – all key elements of Numac's strategic plan; and
- 800 barrels per day of freehold royalty production, which is growing at no cost to Numac as a consequence of expenditures by third parties. These royalty barrels enjoy a high netback, free of crown royalties, capital and operating costs.

During the past year, Numac also continued to consolidate its interests in designated core growth areas through an active asset rationalization program and selective acquisitions at crown land sales. Undeveloped land acquisitions included 64,000 net acres in the Tommy Lakes-Silver-Martin corridor, 56,000 net acres in west central Alberta, 21,000 net acres in southeast Saskatchewan and 49,000 net acres in new venture, high impact exploration areas.

Reserves and Production

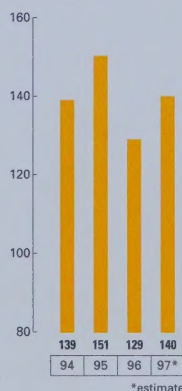
Through a combination of acquisition and success with the drill bit, Numac is determined to become a consistent top quartile performer in terms of reserve replacement. Our growth objective is to at least double production to 60,000 barrels of oil equivalent per day by the year 2000.

Additions to proved and probable reserves in 1996 totaled 17.3 million barrels of oil equivalent, resulting in a production replacement ratio of 149 percent. Reserve replacement costs were \$9.73 per barrel of oil equivalent; however, it is important to note that the high replacement cost partly resulted from the Smart On acquisition. A significant portion of the cost of that acquisition

Crude oil and liquids production
(Mbbbls/day)



Natural gas production
(Mmcf/day)



related to the substantial undeveloped acreage acquired, which establishes the foundation for future exploration activity. Excluding the Smart On acquisition, Numac's reserve replacement cost was \$7.97 per barrel of oil equivalent. While this exceeded the Company's ongoing target of \$6.50, it was, nevertheless, a substantial improvement over the previous two years and stiffens management's resolve to achieve further reductions going forward.

We are also experiencing considerable success at increasing production volumes. Crude oil and natural gas liquids production averaged 19,500 barrels per day in the fourth quarter of 1996, compared with 18,200 barrels per day in the fourth quarter of the previous year. Continued growth is anticipated over the coming year with the 1997 exit rate forecast to exceed 22,500 barrels per day. The return to growth in natural gas production will be accomplished in 1997 when approximately 25 million cubic feet per day of new gas comes on stream from Martin and Redeye in northeast British Columbia and from Gold Creek in Alberta by mid-year. The 1997 exit rate is forecast to exceed 160 million cubic feet per day. The active and successful program of the current winter drilling season is expected to result in further additions to gas production in early 1998.

Financial

Funds from operations in 1996 amounted to \$122.1 million, compared with \$117.5 million in 1995. Major factors contributing to the increased cash flow included higher crude oil prices, steadily increasing crude oil production volumes, and reductions in operating costs and administrative expenses. On a unit of production basis, operating costs were maintained at a very satisfactory \$3.92 per barrel of oil equivalent. Administrative expenses were trimmed to \$0.81 from \$0.87 per barrel of oil equivalent. Reflecting cash flow gains and reduced depletion expense, Numac returned to profitability in 1996 with net income of \$16.9 million.

Net income
(\$ millions)



Funds from operations
(\$ millions)



Outlook

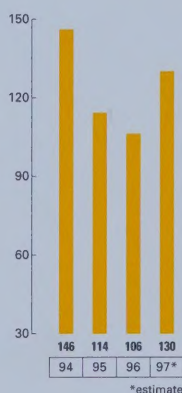
In 1997, Numac will build upon the momentum generated by the achievements of the past year. Drilling successes and property acquisitions in 1996 strengthened our position in core areas, the acquisition of Smart On secured entry into a highly prospective, low-cost region of west-central Saskatchewan, and heavy oil development at Manatokan opened the door to substantial production and cash flow growth. Undeveloped land holdings in western Canada totaling 2.2 million net acres, an expanding inventory of exploration and exploitation opportunities far exceeding current cash flows, and the financial capacity to sustain major investment programs, provide a firm foundation for Numac to achieve significant future growth.

While the base exploration and development budget for 1997 has been set at \$130 million, up 22 percent from the 1996 capital spending level, it is anticipated that this will be substantially expanded as the result of recent drilling successes. Approximately \$65 million of the 1997 budget has been allocated to Manatokan and to the Tommy Lakes-Silver-Martin corridor of northeast British Columbia. The remainder will be invested in crude oil projects in southeast Saskatchewan and Alberta and high impact natural gas exploration in west central Alberta and northeast British Columbia. The planned program anticipates the drilling of at least 30 exploration wells and 195 development wells, including 100 wells to further advance the Manatokan heavy oil project. Approximately two-thirds of 1997 capital spending will focus on crude oil opportunities and the balance on natural gas. The capital budget will be funded principally by cash flow from operations.

In addition to the exploration and development program, Numac will continue to seek acquisition opportunities that can provide increases in reserves, production and cash flow beyond the base budgeted expectations.

Crude oil prices are expected to remain volatile; however, there is evidence to suggest, based on supply and demand fundamentals, that prices will fluctuate within a higher trading range than in the past. The addition of new pipeline export capacity by late 1998 is expected to have a strengthening effect on natural gas prices received by Canadian producers. Further, it appears that our contrarian approach of focusing a significant portion of our capital program on natural gas exploration and development in northeast British Columbia in a low price environment will be rewarded through improving market fundamentals for gas sourced from this area. Notwithstanding the improved outlook for both oil and gas prices, Numac's future capital program will be based on a conservative outlook for commodity prices and continued attention to strict cost control so as to maximize operating margins.

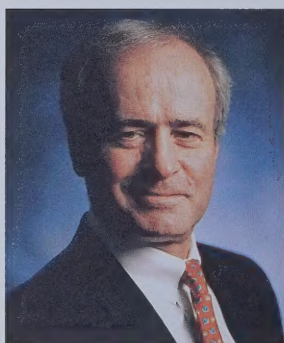
Capital expenditures
(\$ millions)



Corporate

In late 1996, the Board of Directors approved an Issuer Bid to purchase up to five percent of the Company's common shares based on the belief that current market prices do not reflect their fair value. The purchase and cancellation of shares will increase the proportionate interest of, and be advantageous to, all remaining shareholders. To date, in excess of 424,000 shares have been purchased.

At the Annual Meeting to be held on May 22, 1997, Mr. Bruce W. Watson will not be standing for re-election as a director. Mr. Watson has been a member of the Board of Numac and its predecessor company, Numac Oil & Gas Ltd., for many years. The Board of Directors and management gratefully acknowledge the wise counsel and support given by Mr. Watson over this extended period of service.



In order to maintain its diversity and depth, it is intended to expand the Board of Directors to 11 members. Mr. Theodore H. Renner, President of Vista Energy Inc. and former President and Chief Executive Officer of Wascana Energy Inc., and Mr. Lawrence G. Tapp, Dean of the Richard Ivey School of Business at the University of Western Ontario, have been nominated to stand for election as new directors. We look forward to their participation as Board members.

The Board of Directors is appreciative of the contribution of its management and staff. Nineteen ninety-six was a challenging year for Numac and the wide-ranging achievements reflect the dedication and expertise of the Company's employees.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read 'S. McGregor'.

Stewart D. McGregor
Chairman and Chief Executive Officer

March 26, 1997

Numac's strengths, underpinning the strategic plan, include: ■ 2.2 million net acres of undeveloped land in western Canada; ■ a balanced inventory of long life reserves and production; ■ a staff of talented professionals utilizing leading edge technology; and ■ substantial financial capacity, supported by a debt to cash flow ratio of only 1.3 times and a growing stream of internally generated cash flow.

Western Canada Focus



The major thrust of Numac’s exploration and exploitation program is concentrated in the following growth areas:

- the Tommy Lakes-Silver-Martin corridor in northeast British Columbia – for liquids-rich natural gas prospects and, more recently, light oil;
- southeast Saskatchewan – for light oil;
- central Alberta – for multi-zone oil and gas prospects; and
- east central Alberta and west central Saskatchewan – for heavy oil.

The emphasis of the exploration effort is on prospects offering multi-zone and multi-well development potential for both oil and gas, and on opportunities to leverage off existing infrastructure. The program also includes the evaluation of a number of high impact exploration prospects.

In addition, motivated by improvements in technology and the increasing demand for heavy crude oil, the Company has commenced commercial development of its heavy oil lands at Manatokan in east central Alberta.

Property Review

NORTHEAST BRITISH COLUMBIA

Key Characteristics:

- Undeveloped landholdings: 181,000 gross (115,000 net) acres
- Proved plus probable reserves: 17 MMBOE
- Year-end production rates: 24 Mmcf/day of natural gas and 200 Bbls/day of gas liquids

1996 Results:

- Wells drilled: 7 gross (3.3 net), resulting in 1 gross (0.4 net) oil well and 5 gross (2.2 net) gas wells
- Undeveloped land additions: 75,000 gross (64,000 net) acres

1997 Plans:

- Wells planned: 32 gross (22 net)
- Construction of compression/dehydration facilities at Martin Creek and Redeye and the expansion of facilities at Tommy Lakes

The Tommy Lakes-Silver-Martin corridor in northeast British Columbia is both a core producing and a core growth area for Numac. This area accounts for 20 percent of Numac's gas production and is growing. Tommy Lakes, with 90 billion cubic feet of proved plus probable reserves, is Numac's largest gas property.

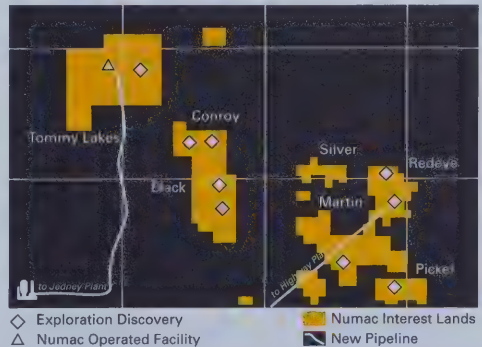
During 1996, the Company consolidated its interests at both Tommy Lakes and Martin, adding 5.6 million barrels of proved plus probable oil equivalent reserves and 40,000 net acres of undeveloped land through acquisition. With Numac's existing infrastructure and expanding land position providing significant leverage for growth, exploration in the area is being integrated with the exploitation of existing assets.

Drilling successes over the 1995/96 winter drilling season included natural gas discoveries at Redeye and Conroy, and an oil discovery at Black. Early results from follow-up drilling over

the 1996/97 winter drilling season have been highlighted by further successes at Redeye. Three new pool gas discoveries have been drilled and plans are progressing for three additional wells and construction of a facility capable of handling 15 million cubic feet per day. Numac has a 50 percent interest in these discoveries. At Conroy and Black the results of delineation drilling have been encouraging but require further evaluation.

Numac's increasing production potential in this region has driven construction of the new Highway plant, which will process gas from the Martin, Silver, Redeye and Conroy areas. Commencing by mid-1997, this new unregulated plant will allow Numac to bring 20 million cubic feet per day of new gas production on stream.

Tommy Lakes-Silver-Martin Corridor



Also commencing in the second quarter of 1997, an average 19 million cubic feet per day of sales gas and 400 barrels per day of natural gas liquids from the Tommy Lakes property will be processed through the new unregulated Jedney plant. Currently, Tommy Lakes production is processed through the McMahon plant, where reliability problems in 1996 restricted Numac production to 14 million cubic feet of gas per day and low liquids recovery.

Given the long life reserve base at Tommy Lakes, infill drilling and expansion of field processing facilities will be undertaken in the latter part of 1997 in order to increase production to 26 million cubic feet of gas per day and 500 barrels per day of liquids.

Numac was instrumental in identifying and securing the deep cut processing facilities at both Highway and Jedney. Improved liquids recovery is forecast to result in an upward revision in Numac's reserves at Tommy Lakes and Martin.

Elsewhere in northeast British Columbia, development activity at Red Creek resulted in two successful gas wells. These wells were tied in to existing infrastructure early in 1997, adding three million cubic feet per day of gas production, net to Numac. Through crown land sales, the Company has significantly enhanced its acreage position in the area and 1997 plans include further evaluation of the exploration potential of this property.

CENTRAL ALBERTA

Key Characteristics:

- Undeveloped landholdings: 525,000 gross (258,000 net) acres
- Proved plus probable reserves: 55 MMBOE
- Year-end production rates: 7,000 Bbls/day of oil and natural gas liquids and 36 Mmcft/day of natural gas

1996 Results:

- Wells drilled: 77 gross (21 net), resulting in 56 gross (12.7 net) oil wells and 15 gross (5.8 net) gas wells
- Undeveloped land additions: 59,000 gross (56,000 net) acres

1997 Plans:

- Development drilling: 11 gross (7 net) wells in central Alberta and up to 30 gross (15 net) wells in the Gold Creek area
- Expansion of waterflood at Progress and implementation of waterflood at Gold Creek

In central Alberta, a major emphasis is being directed toward further exploitation of Numac's core producing assets at Joffre, Crystal and Ferrier. This includes an active exploration program to build on Numac's current infrastructure and strong presence in the area. Within the pool areas of Ferrier and Crystal, deeper objectives are being pursued. Two deep tests have been cased for completion and prospects involving prolific Leduc reefs have been identified for potential drilling in 1997.

At Joffre, a tertiary miscible CO₂ flood was expanded during 1996 with the implementation of pattern 8 configuration to enhance light gravity crude oil production. In 1997 two additional patterns will be drilled and placed onstream. Further studies are being conducted to investigate methods of accelerated field development. Several acquisitions were completed in 1996 which increased Numac's interest in the Unit to 72 percent and captured significant additional non-unit lands within the Joffre field amenable to CO₂ recovery. In addition to expanding Numac's future development opportunities, these acquisitions added 1.7 million barrels of light sweet oil to proved reserves.

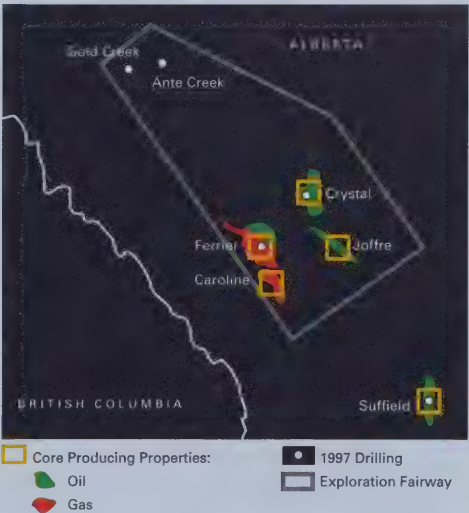
To the northwest, at Gold Creek, development drilling plus the tie-in of seven previously drilled gas wells will add approximately seven million cubic feet per day of gas production, net to Numac, in the second quarter of 1997. Development activity planned for 1997 includes an additional seven gas wells, 12 oil wells and the implementation of waterfloods in Numac's Charlie Lake and Doe Creek oil pools. Production gains in excess of 500 barrels of oil per day and five million cubic feet of gas per day are anticipated from this program.

Further north, at Progress, expansion of the Unit waterflood entailed the drilling of 25 infill oil producers and 25 injector wells. This program, together with the drilling of 25 additional infill oil wells on non-unit lands, was completed early in 1997. The program going forward includes the drilling of a further 30 injector wells to implement a waterflood on the non-unit lands. The Company anticipates up to 800 barrels per day of incremental light gravity oil production from these properties by the fourth quarter of 1997.

On the Company's 30 percent-owned producing acreage at Suffield, in southern Alberta, horizontal drilling has delivered increases in both production and reserve recovery rates. Of 52 wells drilled in 1996, 28 were horizontal or horizontal re-entry wells. At year-end 1996, field production exceeded 2,100 barrels per day, up from 1,500 barrels per day at the end of the previous year. An additional 35 wells are planned for Suffield in 1997.

Early exploration success from Numac's 1996/97 winter drilling program in west central Alberta includes two new pool gas discoveries at Ante Creek, encouraging the Company in its quest to establish a new core area for gas production in the region. Follow-up drilling is planned for this discovery with first production anticipated in 1998.

Central Alberta



MANATOKAN HEAVY OIL PROJECT

Key Characteristics:

- Landholdings: 53,000 acres (gross and net)
- Proved plus probable reserves: 4.3 Mmbbls
- Year-end production rate: 850 Bbls/day

1996 Results:

- Wells drilled: 43 oil wells (gross and net)
- Undeveloped land additions: 1,900 acres (gross and net)

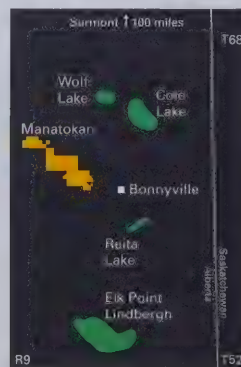
1997 Plans:

- Wells planned: in excess of 100 (gross and net) development wells
- Facility construction: 7,000 Bbls/day central battery and a sand storage facility
- Target production rates: 5,000 Bbls/day by early 1998 and 10,000 Bbls/day by early 1999

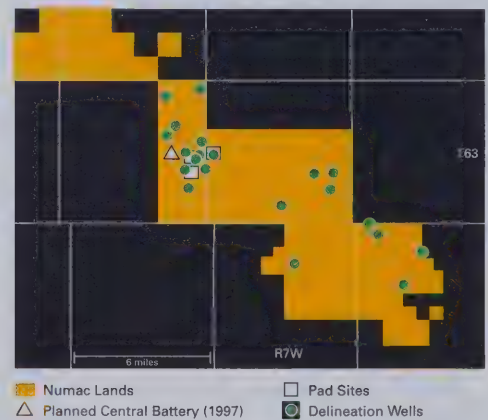
One of Numac's major strategic initiatives over the past year has been the accelerated development of the Company's heavy oil property at Manatokan, in the Cold Lake region of east central Alberta. Oil in place on Numac's 100 percent-owned, 53,000 acre block is estimated to exceed four billion barrels. The principal zones are the Sparky and the Colony. The Numac block is located in the immediate vicinity of other major heavy oil developments.

The Company's activity at Manatokan in 1996 concentrated on delineation drilling to evaluate pay thickness and production potential at selected locations across the block. In total, 20 delineation wells were drilled and equipped for production. In addition, three multi-well pads were drilled and performed as forecast. The program for

Oil Sands Project Areas



Manatokan Heavy Oil Project



1997 includes the sequential drilling, construction and completion of pads on a continuous basis with the exception of spring break-up. In total, over 100 new wells will be drilled and placed on production. To support the aggressive drilling program, a slant hole drilling rig and two slant service rigs have been contracted to the project on a long-term basis.

Other planned activity includes the construction of a new 7,000 barrels per day heavy oil battery and a sand storage facility. The battery, which is being designed to accommodate substantial future expansion, is forecast to be commissioned early in the fourth quarter of 1997.

At year-end 1996, total production from the 19 wells on stream had reached the 850 barrels per day level, a rate that will increase as the performance of the individual wells improve. Using a conservative seven percent recovery factor, production targets for the Manatokan project are 5,000 barrels per day by early 1998, and 10,000 barrels per day by early 1999. Further upside to production and reserves is anticipated through improved recovery rates. Based on results of some wells, recoveries exceeding 12 percent are not unrealistic, which could lead to a more aggressive development program and a sustained production level exceeding the 10,000 barrels per day currently forecast.

Capital spending on the project in 1996 amounted to \$17 million and the investment of a further \$40 million has been approved for 1997. Additional spending of a similar magnitude is anticipated in 1998. Initially, project operating costs will be high – in excess of \$10 per barrel of oil produced – but this will be partly offset by very low, pre-payout Crown royalties of one percent. As multi-well pad sites replace single-well batteries, central facilities become operational, and economies

of scale are realized, Numac is targeting operating costs of less than \$7 per barrel. This project will provide a substantial and profitable long-term crude oil production stream establishing the cornerstone of Numac's heavy oil growth strategy.

WEST CENTRAL SASKATCHEWAN

Key Characteristics:

- Third parties have committed to spend \$50 million over the five-year term of an exploration agreement on 665,000 net acres of Numac 100%-owned freehold title land.
- Numac receives gross overriding royalties of up to 15% on production and reserves from discoveries.
- Numac holds an additional 163,000 net acres of 100%-owned undeveloped freehold title land.
- Proved plus probable reserves: 3.1 MMBOE.
- Year-end 1996 royalty production rate: 850 Bbbls/day.

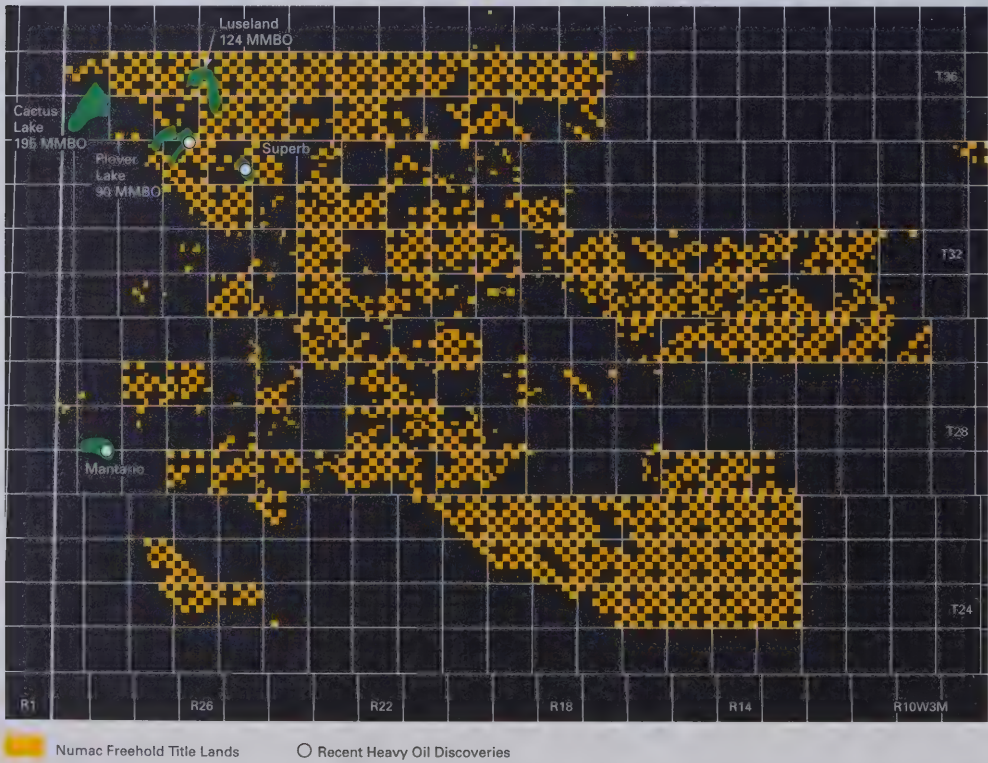
Late in 1996, through the acquisition of Smart On Resources Inc., Numac secured a large freehold title land position in the much sought after, low-cost region of west central Saskatchewan. This region contains two major heavy oil trends – the older Mississippian age Bakken sandstone, preserved as ancient highs, and the Cretaceous aged Mannville channel sands that cut across the area. Pay thickness in the 25 metre range and original oil in place of 20 million barrels per section are not uncommon. Two billion barrels of oil in place have been discovered to date on these trends. A dearth of significant sized tracts of exploratory acreage has long been the barrier to entering this highly prospective region. The acquisition of Smart On Resources breached that barrier and provided Numac with another substantial breakout opportunity.

The freehold title lands acquired included both developed and undeveloped acreage. The undeveloped acreage totalled 828,000 acres, including 665,000 acres currently subject to a five-year exploration lease agreement entered into in 1995. Third parties have committed to spend a minimum of \$50 million to explore and develop the lands over the term of the agreement. Numac retains a gross overriding royalty of up to 15 percent on production and reserves from discoveries. These royalties generate very high netbacks as they are free of crown royalties and capital and operating expenses. A portion of the lands not earned revert to Numac annually under the mandatory relinquishment requirements of the agreement. To date, 163,000 acres of undeveloped acreage have reverted and will form the foundation for a Numac-driven exploration program. While

this freehold acreage is primarily prospective for heavy oil, complementing Numac's heavy oil initiative at Manatokan, it is also prospective for both light oil and natural gas.

Numac retains overriding royalties on the developed acreage acquired in the transaction. This acreage is estimated to contain in excess of 250 million barrels of original oil in place. Further exploitation of these reserves will be carried out by the operators at no cost to Numac. Infill drilling and, perhaps more significantly, the application of thermal recovery techniques, are expected to substantially expand Numac's royalty production. Steam assisted gravity drainage is believed capable of improving recovery factors from less than 10 percent to approximately 50 percent, providing the potential for significant reserve and production upside.

West Central Saskatchewan



SOUTHEAST SASKATCHEWAN

Key Characteristics:

- Undeveloped landholdings: 51,200 gross (42,700 net) acres
- Proved plus probable reserves: 11.6 MMBOE
- Year-end production rates: 3,600 Bbls/day of oil

1996 Results:

- Wells drilled: 25 gross (17.5 net), resulting in 21 gross (15.5 net) oil wells
- Undeveloped land additions: 21,000 acres (gross and net)
- Constructed oil treating facilities at Wordsworth and Silverton

1997 Plans:

- Wells planned: 24 gross (14 net) wells (including 11 horizontal wells)
- Expansion of oil treating facility at Elswick

In southeast Saskatchewan, Numac has been successful in both expanding and exploiting its reserves through a combination of new pool discoveries, acquisitions and improved technology. This is particularly evident at Silverton where production and reserves growth has raised the area to core status. Key contributors to this growth were the acquisition of our partner's 25 percent interest and successful horizontal drilling activity. At year-end 1996, light gravity crude oil production from the 100 percent-owned Silverton pool was approximately 900 barrels per day. Construction of a central battery and water disposal facilities helped to reduce operating costs below \$1.20 per barrel.

The Company's success in the area was extended in 1996 with a new pool discovery on Numac's 100 percent-owned Hastings property, located immediately northwest of Silverton. Successful follow-up drilling resulted in allowable production from this pool rising to 210 barrels of oil per day at year end. The first of three additional development wells planned for 1997

was successfully completed early in the first quarter. Evaluation is continuing along the Frobisher/Alida trend with 21,000 net acres of exploratory land assembled to date.

Significant production gains at the Company's 75 percent-owned and operated pool at Elswick are also contributing to Numac's success in southeast Saskatchewan. Development activity included the drilling of four horizontal oil wells and an injector well, which added 550 barrels of oil production per day, net to Numac, late in 1996. Plans for 1997 include six additional horizontal wells, which are expected to expand the current limits of the pool and result in positive reserve adjustments at year end. Exploration is also being pursued along the Midale trend to further expand what has become a significant core area for Numac.

Southeast Saskatchewan



NEW VENTURES

Key Characteristics:

- Added 72,000 gross (49,000 net) acres of undeveloped land in 1996
- The 1997 program anticipates 13 high impact exploration wells

To maintain an exposure to large reserve potential, up to 15 percent of budget funds have been allocated to new venture exploration. The current program includes the evaluation of a number of high impact prospects in the Peggo and Tooga areas of northeast British Columbia and the Lapp and Hamburg areas of northwest Alberta. These areas have experienced significant oil and gas discoveries over the past two years. With an average working interest of 66 percent, Numac controls 131,000 gross acres on these trends.

Drilling targets include the regionally gas-charged carbonate platform of the Jean Marie formation for unrisks prospect gas reserves exceeding 200 billion cubic feet. This program is a key component in Numac's strategy to secure a strong asset base in this area. The project aims to provide threshold reserves to tie-in gas production within one to two years. To reduce risk, partners have been secured to assume 50 percent of the cost of these Numac-generated plays.

International

Numac's long-term plans contemplate an increased international exposure. In the meantime, the Company is focused on strengthening its asset base in western Canada and the pursuit of a domestic growth strategy. Consequently, Numac's international exposure is currently limited to a 7.5 percent interest in a 3.9 million acre exploration block in Libya. A number of successful wells have been drilled on the block but the commercial potential of these discoveries has yet to be fully evaluated.

Land

In 1996, Numac more than doubled its net undeveloped acreage in western Canada to 2.2 million net acres. A major portion of the increase resulted from the acquisition of Smart On Resources, which added 828,000 acres of 100 percent-owned freehold title land in Saskatchewan and 389,000 acres of 100 percent-owned freehold title land in Manitoba. The freehold lands in Saskatchewan, concentrated in close checkerboard sections across the west central portion of the province, are of tremendous significance to Numac, both for their strategic and their intrinsic value.

In 1996, Numac acquired 195,000 acres of undeveloped land from third parties and crown land sales, including 64,000 net acres in the

New Ventures



/// Current Focus of High Impact Exploration

Tommy Lakes-Silver-Martin area, 56,000 net acres in central Alberta, 21,000 net acres in southeast Saskatchewan, and 49,000 net acres in high impact new venture areas.

Over the recent past, the improvement in industry economics has led to expanded drilling activity and increased competition for exploratory acreage, resulting in undeveloped land becoming a critical, strategic commodity. Seaton-Jordan &

Associates Ltd. evaluated the market value of Numac's non-reserve oil and gas properties in western Canada as of December 31, 1996. This value exceeds \$147 million, an increase of \$81 million, compared with the 1995 valuation, reflecting the substantial growth in the Company's undeveloped acreage position and higher land values throughout the Western Canadian Sedimentary Basin.

Land Holdings at December 31, 1996 (Thousands of acres)	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada						
Alberta	511	236	985	566	1,496	802
British Columbia	132	63	753	401	885	464
Saskatchewan	303	104	927	876	1,230	980
Manitoba	–	–	401	401	401	401
Northwest Territories	–	–	61	2	61	2
East Coast	–	–	34	2	34	2
Total – 1996	946	403	3,161	2,248	4,107	2,651
1995	907	349	2,073	994	2,980	1,343
Libya – 1996 and 1995	–	–	3,934	295	3,934	295

Drilling

Numac’s 1996 drilling statistics demonstrate the success of the new strategic plan. With the emphasis on reduced risk and expanded activity in core areas, the Company nearly tripled the number of wells drilled, compared with 1995, and significantly improved the drilling success rate. Of the 252 successful development wells, 171 were oil and 81 were gas. The oil wells included 43 wells on the Company’s 100 percent-owned heavy oil lands at Manatokan, 46 wells on

the 30 percent-owned Suffield block in southern Alberta and 47 gross (10.3 net) wells on Numac lands at Progress. The majority of the gas wells were drilled in the Hatton/Crane Lake area of southwest Saskatchewan. As a clear indicator of the increasing use of advances in technology, 39 percent of the oil wells drilled used either horizontal or slant hole drilling techniques.

Wells Drilled	Oil		Gas		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1996								
Exploration	3	1.2	11	6.1	11	6.1	25	13.4
Development	171	81.3	81	21.4	6	1.7	258	104.4
Total	174	82.5	92	27.5	17	7.8	283	117.8
Success rate							94%	93%
1995								
Exploration	1	0.8	5	2.3	8	4.1	14	7.2
Development	55	18.7	25	16.5	8	6.5	88	41.7
Total	56	19.5	30	18.8	16	10.6	102	48.9
Success rate							84%	78%

Reserves

At year-end 1996, proved oil and gas liquids reserves totalled 51.5 million barrels, up 11 percent from a year earlier as reserve additions replaced 133 percent of reserves produced. Including revisions, the replacement ratio was 171 percent. Proved natural gas reserves, at 389 billion cubic feet, were virtually unchanged.

Proved and probable reserves additions in 1996 totaled 17.3 million barrels of oil equivalent, reflecting a reserve replacement

ratio of 149 percent, and a replacement cost of \$9.73 per barrel. This high replacement cost was partly the result of the Smart On acquisition. A major portion of the acquisition cost related to the substantial undeveloped acreage acquired, which will be the foundation for significant future exploration activity. Excluding the acquisition of Smart On Resources, Numac's reserve replacement cost was \$7.97 per barrel of oil equivalent.

Summary of Oil and Gas Reserves

(Before deduction of royalties)

	Proved	Probable	Total
Crude Oil and Natural Gas Liquids (thousands of barrels)			
December 31, 1995	46,535	17,263	63,798
Additions	9,175	2,622	11,797
Revisions	2,652	(912)	1,740
Production	(6,903)	—	(6,903)
December 31, 1996	51,459	18,973	70,432
Reserve life index	7.5		10.2

Natural Gas (billions of cubic feet)

December 31, 1995	390.9	180.1	571.0
Additions	39.5	10.3	49.8
Revisions	5.7	(17.9)	(12.2)
Production	(47.1)	—	(47.1)
December 31, 1996	389.0	172.5	561.5
Reserve life index	8.3		11.9

Estimated Present Worth of Net Pre-tax Cash Flow from Proved plus Probable⁽¹⁾ Reserves

(Millions of dollars)

	Undiscounted	10%	Discounted at 15%	20%
December 31, 1996	\$ 1,373.4	\$ 732.0	\$ 595.7	\$ 503.7
December 31, 1995	\$ 1,361.8	\$ 667.3	\$ 532.5	\$ 444.1

⁽¹⁾ Probable reserves were reduced 50 percent to allow for risk.

Major Producing Properties

	1996			1995		
	Oil & NGL Bbls/d	Natural Gas Mmcf/d	BOE/d	Oil & NGL Bbls/d	Natural Gas Mmcf/d	BOE/d
Alberta						
Ferrier	2,309	11.7	3,479	2,294	13.3	3,624
East Peace River, Arch	2,688	2.1	2,898	3,241	2.6	3,501
Caroline	1,656	3.3	1,986	1,347	2.7	1,617
Grand Forks/Ronalane	1,832	—	1,832	2,823	0.2	2,843
Suffield	1,657	0.4	1,697	1,302	0.3	1,332
Manatokan	233	9.8	1,213	—	8.4	840
Crystal	667	1.1	777	893	1.3	1,023
Pine Creek	115	5.6	675	27	5.8	607
Gold Creek	235	4.0	635	195	5.3	725
Calling Lake	—	5.3	530	—	2.7	270
Joffre	319	—	319	330	—	330
Gambler	—	3.0	300	—	4.9	490
Others	3,334	22.8	5,614	3,706	39.4	7,646
	15,045	69.1	21,955	16,158	86.9	24,848
British Columbia						
Tommy Lakes	134	15.2	1,654	109	13.7	1,479
Sikanni	—	5.4	540	—	5.1	510
Brazion	—	4.5	450	—	1.1	110
Silver	66	4.0	466	52	4.9	542
Martin	—	2.0	200	—	3.1	310
Others	87	17.0	1,787	140	24.2	2,560
	287	48.1	5,097	301	52.1	5,511
Saskatchewan						
Hatton/Sandhills	—	10.5	1,050	—	10.7	1,070
Elswick	1,084	0.3	1,114	1,139	0.3	1,169
Silverton/Carnduff	863	—	863	—	—	—
Wordsworth	365	—	365	103	—	103
Others	1,216	0.7	1,286	1,396	0.8	1,476
	3,528	11.5	4,678	2,638	11.8	3,818
Total Production	18,860	128.7	31,730	19,097	150.8	34,177

Production

Numac's 1996 crude oil and gas liquids production averaged 18,900 barrels per day, down marginally from 19,100 barrels per day in 1995. Exit rates, however, indicate a return to production growth. In the fourth quarter of 1996, Numac's crude oil and gas liquids production had climbed to 19,500 barrels per day, up seven percent from the 18,200 barrels per day in the fourth quarter a year earlier. Exploitation of core properties, supplemented by the acquisition of producing acreage, were the major factors contributing to this success. That the turnaround was accomplished in time to capture the much improved crude oil prices prevailing through 1996 was particularly gratifying. In 1997, production is budgeted to average 21,000 barrels per day, with the 1997 exit rate forecast to exceed 22,500 barrels per day.

Numac's natural gas production received a severe setback late in 1995 and into 1996 from the unexpected deterioration in production performance from foothills and reef structures in northeast British Columbia. As a result, the Company's production of natural gas in 1996 dropped to 129 million cubic feet per day, down from 151 million cubic feet per day achieved in 1995.

In 1997, the Company expects natural gas production to grow from a 1996 exit rate of 120 million cubic feet per day to 160 million cubic feet per day by year end. New production from Martin Creek and Redeye in northeast British Columbia and Gold Creek in west central Alberta, commencing by mid-year, will be the main contributors to the improvement. In the belief that Canadian gas prices will continue to be discounted until pipeline capacity to the United States increases in the latter part of 1998, the

Company's gas drilling program remains focused on discovering and proving up additional reserves for the medium term, in expectation of improving gas markets in 1998 and beyond.

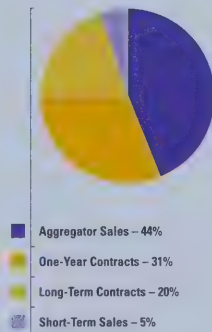
Marketing

Natural gas

The average price realized by the Company for its natural gas production was \$1.64 per thousand cubic feet in 1996, an increase of nine percent compared with \$1.50 per thousand cubic feet in 1995. This increase was partially the result of successful hedging of the Sumas basis differential in British Columbia. Numac calculates its Alberta and Saskatchewan prices at the plant gate and British Columbia price at the wellhead, which is net of gathering and processing costs.

Numac sells its gas to a diverse group of buyers. In 1996, approximately 44 percent was sold to aggregators, 51 percent was sold to term markets and the balance was sold into spot markets. Approximately 62 percent of Numac's total gas sales are tied to U.S. markets including 46 percent which is sold directly via the Company's

1996 Natural gas markets



control of export pipeline space. In 1996, 54 percent of Numac's natural gas production originated in Alberta, 37 percent in British Columbia and nine percent in Saskatchewan.

Looking forward to 1997, the gas industry in British Columbia faces some uncertainty regarding tolls for gathering and processing on the Westcoast system as well as over the reliability of the service. To alleviate these concerns, the Company successfully negotiated favourable fixed tolls for its gas production through new unregulated facilities at Highway and Jedney. In addition to achieving predictable tolls, transferring the bulk of Numac's gas in British Columbia to unregulated facilities will provide the Company with a more reliable service and will significantly improve liquids recoveries.

In the latter part of 1996, Numac left a large portion of its natural gas production unhedged. As prices increased late in the year, however, the Company fixed the price on approximately 25 percent of anticipated 1997 production at prices exceeding those realized in 1996.

Crude oil and natural gas liquids

Numac has a favourable crude oil production mix which, in 1996, was composed primarily of light and medium quality crudes. Numac sells its crude oil to various refineries, using a mix of spot and term sales to maximize netbacks. The majority of the Company's 1996 natural gas liquids production was sold to a single buyer under a multi-year arrangement. The average price realized by Numac for its crude oil and natural gas liquids production in 1996 was \$23.59 per barrel, which compared with \$20.85 per barrel in the previous year. The

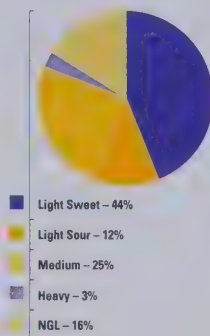
improvement reflected the generally higher crude oil prices that prevailed on world markets, primarily as the result of increased global demand, with some offset from the opportunity cost of hedging.

While apportionment continued to be a problem on the Interprovincial Pipe Line System, the diverse nature of Numac's sales arrangements enabled the Company to deliver all of its production, thereby avoiding discount markets.

Through the use of financial instruments, Numac has forward sold 29 percent of its budgeted 1997 crude oil production at an average price of US \$20.41 per barrel.

During the latter part of 1996, Numac began seeking markets for the increasing volumes of heavy oil being produced at Manatokan. While targeting opportunities to maximize netbacks, the Company plans to secure long-term marketing and transportation arrangements to ensure the economic stability of the project.

1996 Crude oil and NGL production



This section should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Annual Report.

Results of Operations

for the years ended December 31, 1996 and 1995

Overview

Funds from operations for 1996 were \$122.1 million (\$1.30 per share), compared to \$117.5 million (\$1.26 per share) in 1995. This increase was primarily attributable to higher crude oil revenues caused by a 13 percent increase in crude oil prices, partially offset by lower natural gas revenues.

Numac reported net income of \$16.9 million (\$0.18 per share) compared to a net loss of \$178.8 million (\$1.91 per share) in 1995. The 1995 loss resulted from the recognition of additional depletion charges of \$242.1 million (\$178.4 million, net of deferred income taxes) as a consequence of a reduction in the carrying value of the Corporation's oil and gas properties in accordance with the annual ceiling test calculation. Earnings were higher in 1996 as a result of reduced depletion and depreciation expense, an increase in average prices for crude oil and natural gas, and reduced operating and general and administrative costs.

Crude Oil and Natural Gas Liquids

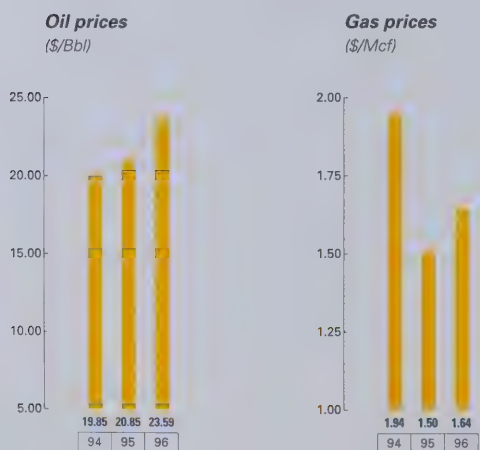
Liquids revenue increased to \$126.2 million, net of royalties, from \$118.7 million in 1995. The average selling price per barrel, including hedging, increased 13 percent to \$23.59 in 1996 compared to \$20.85 in the prior year. Liquids production volumes averaged 18,860 Bbbls/day, a slight decrease compared to 19,097 Bbbls/day in 1995. Normal production declines were offset by additions from the Corporation's exploration and development program, particularly in southeast Saskatchewan at Silverton and Wordsworth, and in southeast Alberta at Suffield. These programs had a greater impact late in 1996, resulting in a December 1996 average production rate of 19,800 Bbbls/day.

Natural Gas

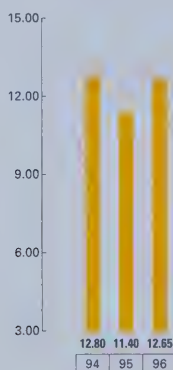
Natural gas revenue in 1996 decreased to \$66.2 million, net of royalties, compared with \$72.4 million in the prior year. Natural gas volumes averaged 128.7 Mmcf/day in 1996, a decrease of 15 percent compared to 150.8 Mmcf/day in 1995. This reduction was primarily due to decreased production from northeast British Columbia gas fields. Including hedging, natural gas prices averaged \$1.64/Mcf in 1996, a nine percent increase over \$1.50/Mcf realized in 1995.

Other Income

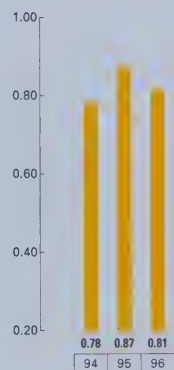
During 1996, other income decreased to \$1.9 million from \$2.5 million in 1995 primarily as a result of reduced interest income from short-term investments.



	Year Ended December 31,	
	1996	1995
Crude oil and natural gas liquids		
Average price (\$ per Bbl)		
– excluding hedging	\$ 25.38	\$ 20.80
– including hedging	\$ 23.59	\$ 20.85
Volume (Bbls/day)	18,860	19,097
Natural gas		
Average price (\$ per Mcf)		
– excluding hedging	\$ 1.50	\$ 1.14
– including hedging	\$ 1.64	\$ 1.50
Volume (Mmcfs/day)	128.7	150.8
BOE ⁽¹⁾ production (Bbls/day)	31,730	34,177
BOE ⁽¹⁾ netbacks		
Revenue	\$ 20.67	\$ 18.26
Royalties	(4.10)	(2.94)
Operating costs	(3.92)	(3.92)
Netbacks (including hedging)	\$ 12.65	\$ 11.40
General and administrative expenses per BOE ⁽¹⁾	\$ 0.81	\$ 0.87

Netbacks
(\$/BOE)

G&A costs
(\$/BOE)



Production Expense

Production expense decreased by seven percent to \$45.6 million in 1996 from \$48.9 million in 1995. This is primarily attributable to a decrease in production volumes. Dedicated and successful efforts were made by the Corporation to maintain and control operating costs on a BOE basis at \$3.92/BOE, despite lower production volumes. Production costs on Numac operated properties were reduced to \$3.74/BOE in 1996 from \$4.12/BOE in 1995. Costs for non-operated properties increased to \$4.17/BOE in 1996 from \$3.64/BOE in 1995, primarily as a result of higher fixed costs.

	1996	1995
Crude oil – \$/Bbl	\$ 3.92	\$ 4.17
Natural gas – \$/Mcf	\$ 0.39	\$ 0.36
\$/BOE	\$ 3.92	\$ 3.92

General and Administrative Expense

General and administrative expense was \$9.4 million in 1996, a decrease of 13 percent from \$10.9 million in 1995. The 1995 results include \$1.8 million in charges associated with the departure of senior personnel. General and administrative expense was \$0.81 per BOE in 1996, a decrease of seven percent as compared to \$0.87 per BOE in 1995. The 1996 expense includes \$1.3 million pursuant to the Corporation's short-term incentive program, compared with nil in 1995. There were 211 permanent employees at December 31, 1996, compared to 226 employees at December 31, 1995.

Interest Expense

Interest on debt decreased to \$12.6 million in 1996, compared to \$13.1 million in 1995. The four percent decrease resulted from a reduction in the average rate of interest on Numac's long-term debt to 6.5 percent in 1996 compared to 6.7 percent in 1995.

Depletion and Depreciation and Future Site Restoration

Depletion and depreciation charges decreased to \$74.7 million in 1996 compared to \$342.6 million in 1995. Included in 1995 depletion expense was a reduction in the carrying value of the Corporation's Canadian oil and gas assets of \$224.9 million (\$168.3 million net of deferred income taxes) related to the ceiling test writedown taken at December 31, 1995. Additional depletion of \$17.2 million (\$10.1 million net of deferred income taxes) was also taken in 1995 related to impairment of the Corporation's foreign oil and gas assets. In 1996, the depletion and depreciation rate decreased to \$4.83 per BOE*, as compared to \$6.12 per BOE* in 1995 due to the 1995 ceiling test writedown.

Future site restoration expense increased to \$4.7 million in 1996, compared to \$4.2 million in 1995 due to a higher average BOE rate in 1996. A reassessment of estimated future site restoration costs in the fourth quarter of 1996 has resulted in a reduction in the site restoration rate to \$0.28 per BOE* from \$0.33 per BOE* earlier in the year. During 1996, approximately \$1.2 million of costs incurred for site reclamation were charged against the accumulated provision (\$1.0 million in 1995).

Income and Other Taxes

Numac's provision for the federal Large Corporations Tax, the Saskatchewan Resource and Capital Tax, and the British Columbia Capital Tax remained relatively constant at \$3.0 million, compared to \$2.9 million in 1995.

The Corporation recorded a deferred tax provision of \$27.4 million in 1996. This compares to a deferred tax recovery of \$50.2 million in 1995 resulting primarily from the ceiling test writedown and the foreign asset impairment recorded at year end. The Corporation's effective income tax rate

** For the purposes of calculating depletion and depreciation and future site restoration, natural gas has been converted to equivalent barrels of oil at 6 Mcf = 1 Bbl.*

differs from the legislated tax rate of 44.8 percent principally as a result of non-deductible depletion and depreciation on assets that have no corresponding tax basis. These assets will be depleted and depreciated at the Corporation's normal annual rates and, accordingly, will have an impact on future effective tax rates.

Tax Pools

At December 31, 1996, Numac's estimated tax pool balances are as follows:

(Millions)	
Canadian oil and gas property expense	\$ 111.1
Undepreciated capital cost	96.8
Canadian development expense	57.7
Canadian exploration expense	33.3
Foreign exploration and development expense	8.0
	<u>\$ 306.9</u>

The above balances exclude tax pools of \$111.8 million, deductions from which are restricted to income generated from specific properties. These tax pools are large enough to shelter their related income streams for several years.

Numac does not expect to pay current income tax in 1997 (other than the federal Large Corporations Tax and provincial capital taxes) as the Corporation's tax pools, combined with 1997 capital expenditures, are sufficient to shelter anticipated cash flow.

Liquidity and Capital Resources

Numac's cash balance was \$47.1 million at December 31, 1996 compared to \$53.6 million in 1995, a decrease of \$6.5 million. The change was a result of the following:

(Millions)	1996	1995
Funds from operations	\$ 122.1	\$ 117.5
Proceeds on sale of property	24.4	10.7
Common shares issued for acquisition of Smart On Resources Inc.	22.1	—
Working capital and other	18.3	(1.9)
	<u>186.9</u>	<u>126.3</u>
Expenditures on property, plant and equipment	(141.5)	(116.8)
Acquisition of Smart On Resources Inc.	(51.2)	—
Common shares purchased (Normal Course Issuer Bid)	(0.7)	—
	<u>(193.4)</u>	<u>(116.8)</u>
Increase (decrease) in cash during the year	\$ (6.5)	\$ 9.5

Numac plans to fully reinvest the funds generated from operations in its ongoing exploration and development programs.

Effective December 19, 1996 and terminating on December 18, 1997, the Corporation has undertaken a normal course issuer bid to purchase, from time to time, up to five percent of its issued and outstanding common shares on the open market. During 1996, the Corporation expended \$656,000 to purchase 118,600 common shares at an average cost of \$5.53 per share.

In 1996, Numac continued its asset rationalization program aimed at consolidating interests in core areas. In the past year, the Corporation received proceeds of \$24.4 million related to non-core asset dispositions (1995 – \$10.7 million). The funds generated from this program were used to fund ongoing exploration and development and to acquire increased ownership in growth areas such as northeast British Columbia and southeast Saskatchewan.

The following table summarizes Numac's investing activities:

(Thousands)	1996	1995
Land acquisitions	\$ 13,198	\$ 6,163
Exploration	28,128	36,539
Development	63,125	64,249
International	605	3,761
Other	1,271	2,988
Total exploration and development expenditures	106,327	113,700
Producing property acquisitions	35,137	3,072
Acquisition of Smart On Resources Inc.	51,251	–
Proceeds from sales of properties	(24,373)	(10,712)
Net acquisitions (dispositions)	62,015	(7,640)
Net expenditures	\$ 168,342	\$ 106,060

On November 1, 1996, Numac acquired all of the outstanding shares of Smart On Resources Inc. (SOR), a private oil and gas company. The purchase price was attributed to the assets and liabilities acquired based on an estimate of their fair values as follows:

(Thousands)	
Property and equipment	\$ 51,251
Working capital	(2,304)
Purchase price	\$ 48,947

Cash consideration for the transaction was \$26,814,000. The remainder of the purchase price was financed through the issuance of 3,670,476 Numac common shares with an ascribed value of \$22,133,000.

Numac has an unsecured credit facility with two Canadian chartered banks which provide for a \$225 million production loan and a \$30 million operating loan. The production loan facility is a revolving loan which may be extended annually at the option of the bank or converted to a term loan. The effective rate of interest on the US\$117 million advanced under this production loan facility averaged approximately 6.4 percent for 1996 (6.6 percent for 1995). At December 31, 1996, the Corporation had unutilized lines of credit of approximately \$88 million.

The Corporation's cash balance at December 31, 1996 of \$47.1 million is currently being invested in short-term corporate and government money market instruments. Numac continues to pursue strategic acquisition opportunities that match the Corporation's long-term plan. This surplus cash, combined with the unused lines of credit, will provide the Corporation with the flexibility to pursue growth opportunities.

Business Risks

General

Profitability within the oil and gas industry is dependent to a large extent on prices received for crude oil and natural gas. Prices of these commodities, and the Corporation's revenue streams, are influenced by market-based supply and demand factors including the level of industry drilling activity, transportation availability, weather conditions, state of the economy, and international political developments.

The costs associated with the Corporation's exploration and development activities are also influenced by commodity prices. When commodity prices are high, activity levels within the industry tend to increase, resulting in upward pressure on land prices and equipment and service costs. Strong commodity prices, particularly later in 1996, have resulted in increased land acquisition and exploration and development expenditures.

The oil and gas industry is subject to environmental regulations pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases of emissions of various substances produced in association with certain crude oil and natural gas operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. The industry is also faced with uncertainties as to availability of access to environmentally sensitive lands for exploration and development activities.

Risk Management

The principal risk for the Corporation is its ability to discover and produce reserves at a cost that provides an acceptable rate of return on investment. The Corporation attempts to balance its prospect portfolio between high and low risk exploration, development and acquisition opportunities. New technology, such as horizontal drilling, and advanced geophysical modelling techniques, are being used in those areas where it is commercially practical.

Numac's comprehensive insurance program protects the Corporation against certain potentially significant losses which could arise as a result of the risks associated with the exploration, development and production of crude oil and natural gas. Numac has developed its own specific environmental and operating guidelines, a comprehensive emergency response program and a spill reporting system. Numac also maintains a comprehensive safety program which is designed to encourage employee responsibility and participation in all aspects of operations. The Corporation believes that it is in substantial compliance, in all material respects, with all current environmental legislation and is taking such steps as the Corporation believes are prudent to ensure that compliance will be maintained.

The primary source of funding for the Corporation's capital program is cash flow from operations. In order to protect cash flow and capital programs, the Corporation uses financial instruments with off-balance sheet risk to manage its exposure to fluctuations in crude oil and natural gas prices, foreign exchange rates, and interest rates.

Market risk is the possibility that a change in crude oil and natural gas prices, foreign currency exchange rates, or interest rates will cause the value of a financial instrument to decrease or become more costly to settle. The Corporation uses financial instruments for the purpose of hedging and, accordingly, reduces exposure to significant market risk because gains and losses on the financial instruments are offset by gains and losses on production revenue, interest expense or the specific transaction being hedged.

The Corporation uses fixed price contracts and financial instruments to hedge its exposure to fluctuations in crude oil and natural gas prices, foreign exchange forward rate contracts to reduce exposure to fluctuating foreign exchange rates, and interest rate forward contracts to vary the amounts and periods for which interest rates on borrowings are fixed. The Corporation enters into swap contracts from time to time to fix natural gas and crude oil prices, natural gas basis differentials and crude oil quality differentials, CDN\$/US\$ exchange rates and interest rates. A swap is a financial derivative instrument whereby the Corporation and a third party agree to settle, at specified intervals, the difference between an agreed fixed commodity price, interest rate or exchange rate and floating prices or rates calculated by reference to an agreed

notional volume or principal amount. There is no obligation to deliver or receive quantities of crude oil or natural gas pursuant to a swap contract.

Certain of the Corporation's natural gas sales contracts incorporate prices which are indexed to the New York Mercantile Exchange (NYMEX) natural gas futures contracts while others incorporate prices which are indexed to prices at various trading and delivery points such as Sumas, Washington and Empress, Alberta. Natural gas sold in the Sumas and Empress markets is typically priced at a discount to NYMEX prices with the differential reflecting supply and demand fundamentals combined with transportation charges in the different markets.

The price the Corporation receives for its crude oil production is indexed to NYMEX West Texas Intermediate (WTI) crude oil futures contracts less a quality, transportation and foreign exchange differential. Each of these price elements is subject to volatility caused by the market's changing views of supply and demand fundamentals.

The natural gas and crude oil pricing mechanisms described above generally utilize price indexes which are denominated in US\$. This results in the Corporation's revenue streams being subject to fluctuation in the CDN\$/US\$ exchange rate.

Derivative Hedging Positions at December 31, 1996

Swap Type	Notional Quantity or Amount	Period	Average Fixed Price or Rate Received	Fair Market Value (\$CDN) at December 31, 1996 (Thousands)
Natural Gas				
Sumas index	5.0 Mmcf/day	Jan 1997	US\$3.08/mcf	\$ (227)
AECO index	4.7 Mmcf/day	Jan to Dec 1997	CDN\$1.64/mcf	62
West Texas Intermediate crude oil	5,000 Bbls/day	Jan to Dec 1997	US\$20.41/Bbl	(6,733)
Foreign exchange	US\$2.5 million per month	Jan to Dec 1997	US\$0.7246/CDN\$	1,288
Interest rate	US\$50 million	Jan to Feb 1997	5.89%	(45)
				<u>\$ (5,655)</u>

The Corporation's bank borrowings currently carry an interest rate indexed to floating short-term market rates thus exposing financing costs and cash flow to the volatility of the capital markets.

To mitigate the cash flow impact of adverse changes in commodity prices, foreign currency exchange rates and interest rates, the Corporation had derivative hedging positions in place at December 31, 1996, as indicated in the table on the preceding page.

The fair market value represents the amount that the swap agreement could have been settled for, given the market conditions at December 31, 1996.

In addition to market risk, the financial instruments used by the Corporation involve, to varying degrees, credit risk. The Corporation controls counterparty credit risk with credit approvals, limits on exposures to any one counterparty, and monitoring procedures. The Corporation does not require collateral nor other security to support financial instruments nor does the Corporation provide collateral or security to counterparties. The Corporation does not expect non-performance by any counterparty.

The Board of Directors has established limits on the nature and amount of hedging contracts that the Corporation can enter into, and receives periodic updates on the status of all hedging

activities. The Corporation also maintains a system of internal controls designed specifically to prevent undue risk being undertaken by the Corporation when using financial instruments.

Sensitivities

The main factors affecting Numac's funds from operations are crude oil and natural gas prices, production volumes, and the CDN\$/US\$ exchange rate. The sensitivities of funds from operations to changes in these factors is shown in the sensitivities table, based on fourth quarter 1996 activity levels. The impact of a change in any one factor may be compounded or offset by changes in other factors. This table does not consider the impact of any interrelationship between the factors or the Corporation's hedging activities.

Outlook

Strong crude oil prices, which prevailed for most of 1996, have continued into 1997, despite the partial return of Iraqi crude oil to world markets. A major contributor has been the increasing demand for energy from Asian countries, relatively low inventories, and harsh winter conditions in the Northern Hemisphere providing additional support. While the growing strength of global economic activity bodes well for crude oil prices, some weakening from current levels can be anticipated

Sensitivities

Factor	Fourth Quarter 1996 Average	Increase (Decrease)	Approximate Annual Increase in Funds from Operations (Millions)
Price of crude oil (West Texas Intermediate) (US\$/Bbl)	US\$24.57	US\$1.00	\$ 7.4
Price of natural gas (CDN\$/Mcf)	\$1.99	\$0.10	\$ 3.8
Production of crude oil and natural gas liquids (Bbls/day)	19,532	1,000	\$ 6.4
Production of natural gas (Mmcf/day)	118.5	10	\$ 4.9
US\$/CDN\$ exchange rate	\$0.74	\$(0.01)	\$ 2.2

over the near term as the winter weather subsides. For Canadian producers, some further impairment in netbacks can be expected as a result of a stronger Canadian dollar.

The sharply higher spot prices for Canadian natural gas in the last quarter of 1996 also continued into early 1997, mainly as a result of the colder-than-normal winter weather. As the winter weather dissipates, gas-on-gas competition within Alberta for available pipeline space to the higher-priced U.S. markets is expected to result in a return to weaker Canadian spot prices, until the 700 Mmcfd/day expansion of the Northern Border export pipeline is completed late in 1998. Over the longer term, with rising depletion rates, declining reserve life indices and an anticipated increase in demand for natural gas as an environmentally preferred fuel, the economic fundamentals for this commodity are very positive.

For planning purposes, Numac is assuming that the West Texas Intermediate ("WTI") crude oil price will average US\$20 per barrel in 1997. For natural gas, the Company is assuming an average price of \$1.55 per thousand cubic feet. In 1996, the WTI crude oil price averaged US\$22.02 per barrel and the natural gas field price, excluding hedging, was \$1.50 per thousand cubic feet.

Numac's strategy for 1997 is to build upon its achievements. Drilling successes and property acquisitions in 1996 have strengthened Numac's position in core areas, the acquisition of Smart On Resources gave Numac entry into the highly prospective, low-cost region of west-central Saskatchewan, providing excellent opportunities for reserves and production gains, and the Manatokan

heavy oil project, which also offers tremendous growth potential, will soon be a major cash flow contributor. With an expanding inventory of exploration and exploitation opportunities and the balance sheet strength to sustain major investment programs, the foundations are now firmly in place for significant growth going forward.

Responding to the excellent prospects being generated, a 1997 base capital budget of \$130 million has been approved, an increase of 22 percent compared with 1996. Approximately \$40 million of the 1997 budget will be invested in drilling, completions and facilities at Manatokan and \$25 million will be invested in the Tommy Lakes-Silver-Martin corridor of northeast British Columbia. The remainder has been allocated to light oil development projects in southeast Saskatchewan and high impact exploration in central Alberta and northeast British Columbia. The planned program anticipates the drilling of at least 30 exploration wells and 195 development wells, including 100 wells to further develop the Manatokan heavy oil project. Approximately two-thirds of 1997 capital spending will focus on crude oil opportunities and the balance on natural gas.

In addition to the exploration and development program, the Corporation will continue to seek out acquisition opportunities that can provide increases in reserves, production and cash flow beyond the base capital program.

The accompanying consolidated financial statements of Numac Energy Inc. are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and include certain amounts that reflect management's judgement and best estimates. Financial information contained elsewhere in the Annual Report is consistent with the information contained in the consolidated financial statements.

The management of the Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are relevant, reliable and accurate for the preparation of consolidated financial statements and that assets are properly accounted for and adequately safeguarded. The internal accounting control process includes management's communications to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for financial reporting and internal controls principally through its Audit Committee, which is comprised of directors who are not officers or employees of the Corporation. The Committee meets regularly with management, the internal auditors, and the external auditors to discuss and review the consolidated financial statements, internal controls, audit reports, and accounting policies.

The consolidated financial statements have been audited by Price Waterhouse, appointed by the Board of Directors as the Corporation's independent auditors, and their report follows.



Stewart D. McGregor
Chairman and Chief Executive Officer



Dale J. Hohm
Vice-President, Finance and Corporate Secretary

January 31, 1997

To the Shareholders of Numac Energy Inc.:

We have audited the consolidated balance sheet of Numac Energy Inc. as at December 31, 1996 and the consolidated statements of income and deficit and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in Canada.

The consolidated financial statements, as at December 31, 1995 and for the year then ended, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 26, 1996.

Calgary, Canada
January 31, 1997

A handwritten signature in cursive script, reading "Price Waterhouse".

Chartered Accountants

Consolidated Balance Sheets

(thousands of dollars)	1996	December 31, 1995
ASSETS		
Current Assets		
Cash and temporary cash investments	\$ 47,088	\$ 53,628
Accounts receivable	44,643	45,436
	91,731	99,064
Deferred income taxes	—	8,786
Property, plant and equipment (Notes 2 and 3)	597,865	504,206
	\$ 689,596	\$ 612,056
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 61,365	\$ 43,865
Long-term debt (Note 4)	191,739	191,253
Deferred credits and other long-term obligations (Note 5)	29,491	26,990
Deferred income taxes	18,643	—
Shareholders' equity		
Share capital (Note 6)	441,517	419,924
Contributed surplus (Note 6)	73,679	73,795
Deficit	(126,838)	(143,771)
	388,358	349,948
	\$ 689,596	\$ 612,056

On behalf of the Board:



Director



Director

Consolidated Statements of Income and Deficit

(thousands of dollars, except per share amounts)	Years Ended December 31,	
	1996	1995
REVENUES		
Crude oil and natural gas sales (Note 7)	\$ 239,997	\$ 227,727
Royalties	(47,612)	(36,638)
Other	1,948	2,525
	<u>194,333</u>	<u>193,614</u>
EXPENSES		
Production	45,569	48,941
General and administrative	9,443	10,866
Interest on long-term debt	12,559	13,106
Depletion, depreciation and future site restoration (Note 3)	79,371	346,850
	<u>146,942</u>	<u>419,763</u>
Income (loss) before taxes	47,391	(226,149)
Income and other taxes (Note 8)		
Current	3,029	2,855
Deferred (recovery)	27,429	(50,204)
	<u>30,458</u>	<u>(47,349)</u>
Net income (loss) for the year	16,933	(178,800)
Retained earnings (deficit), beginning of year	(143,771)	35,029
Deficit, end of year	\$ (126,838)	\$ (143,771)
Net income (loss) per common share (Note 9)	<u>\$ 0.18</u>	<u>\$ (1.91)</u>

Consolidated Statements of Cash Flow

(thousands of dollars)	Years Ended December 31,	
	1996	1995
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ 16,933	\$ (178,800)
Add (deduct) non-cash items:		
Depletion and depreciation	74,683	342,601
Deferred income taxes	27,429	(50,204)
Amortization of deferred credits and other long-term obligations	3,013	3,903
Funds from operations	122,058	117,500
Change in working capital other than cash	10,316	9,372
Cash provided by operating activities	132,374	126,872
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	(141,464)	(116,772)
Acquisition of Smart On Resources Inc. (Note 2)	(51,251)	-
Proceeds on sale of property	24,373	10,712
Change in working capital other than cash	7,977	(11,366)
Cash used in investing activities	(160,365)	(117,426)
FINANCING ACTIVITIES		
Common shares issued (Note 6)	22,133	89
Purchase of common shares (Note 6)	(656)	-
Long-term debt repayments	(99)	(98)
Other	73	56
Cash provided by financing activities	21,451	47
Increase (decrease) in cash during the year	(6,540)	9,493
Cash, beginning of year	53,628	44,135
Cash, end of year	\$ 47,088	\$ 53,628
Cash consists of cash and temporary cash investments.		

(all tabular amounts expressed in thousands of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Form 40-F, filed with the United States Securities and Exchange Commission, includes a summary of the differences between generally accepted accounting principles in Canada and those accepted in the United States.

(i) Principles of Consolidation

The consolidated financial statements include the accounts of Numac Energy Inc. ("Numac") and all of its subsidiaries. The primary entities owned 100% by Numac are Canadian Roxy Petroleum Ltd. ("Roxy") and Numac Energy, an Alberta general partnership.

(ii) Property, Plant and Equipment

a) Capitalized Costs

The Corporation follows the full cost method of accounting whereby all costs associated with the exploration for and development of crude oil and natural gas reserves are capitalized in cost centres on a country by country basis and charged against income as set out below. Such costs include land acquisition, drilling, geological and geophysical, facilities, and related overhead.

Proceeds on disposition of oil and gas properties and production equipment are credited against accumulated costs. However, when such a disposal would change the rate of depletion and depreciation by more than 20%, a gain or loss is recorded.

b) Depletion and Depreciation

Capitalized costs of developed properties, including a provision for future costs to develop proved reserves, are amortized through depletion and depreciation charges using the unit of production method based on estimated proved crude oil and natural gas reserves, as determined by independent reservoir engineers. For purposes of these calculations, production of crude oil, natural gas liquids, natural gas, and proved reserves before royalties, are converted to a common unit of measure on the basis of their approximate relative energy content. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment occurs.

Other fixed assets are depreciated on a straight-line basis at rates of 10 to 20%.

c) Ceiling Test

The net carrying value of the Corporation's oil and gas properties and production equipment in cost centres is limited to an estimated recoverable amount. This amount is calculated as the aggregate future net revenues from proved reserves plus the cost of unproved properties, net of impairment allowances, less future expenditures required to develop and produce the reserves and future site restoration costs. Future net revenues are calculated using prices in effect at the Corporation's year end without escalation or discounting.

The net carrying value of all cost centres, less related accumulated provisions for future site restoration costs and deferred income taxes, is further limited to the total estimated recoverable amount of all cost centres less future general and administrative costs, financing costs and income taxes.

d) Site Restoration

Future estimated site restoration costs for property, plant and equipment, net of expected recoveries, are accrued and charged against income over the life of the estimated proved crude oil and natural gas reserves using the unit of production method. Site restoration expenditures incurred are charged to the accumulated provision for future site restoration.

(iii) Income Taxes

The Corporation follows the deferral method of tax allocation accounting under which the income tax provision is based on reported earnings. Deferred income taxes result from timing differences between the recognition of revenues and expenses for income tax purposes and for financial statement purposes. The source of these differences is principally exploration and development expenditures and capital cost allowance deductions for income tax purposes which differ from depletion and depreciation expense.

(iv) Pension Plan

The Corporation maintains a non-contributory defined benefit plan and a defined contribution plan covering substantially all employees. The Corporation also provides certain officers and retirees with supplemental defined retirement benefits. The costs of pension benefits earned under the defined benefit plans are determined using the accrued benefit method prorated on services. The actuarial value of assets is determined using a five-year average market value. The defined benefit pension plans are subject to periodic actuarial valuations. Adjustments arising on valuation are charged to, or taken into, income on a straight-line basis over the expected average remaining service life of the employee groups. The costs of payments to the defined contribution pension plan are charged against income as incurred.

(v) Joint Interest Operations

Substantially all of the Corporation's exploration and development activities are conducted jointly with other parties and, accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

(vi) Hedging

The Corporation enters into various swap agreements to reduce its exposure to interest rate and crude oil and natural gas commodity price fluctuations related to future sales. Gains or losses on these contracts, which constitute effective hedges, are deferred and recognized as a component of the related transaction.

(vii) Foreign Exchange Gains and Losses

Monetary assets and liabilities of the Corporation which are denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date, while non-monetary assets and liabilities are translated at rates of exchange prevailing on the transaction dates. Revenue and expense items are translated at the average rates of exchange during the period. Gains and losses on translation are included in net income for the year, except for unrealized foreign exchange gains and losses on long-term monetary assets and liabilities, which are deferred and amortized, on a straight-line basis, over the remaining lives of the related assets or liabilities.

2. ACQUISITION OF SMART ON RESOURCES INC. ("SOR")

On November 1, 1996, Numac acquired all of the outstanding shares of SOR, a private oil and gas company which was previously 100% owned by two shareholders having a combined 35% ownership interest in Numac. The purchase of SOR, for total consideration of \$48,947,000 was approved by the Board of Directors on the recommendation of an Independent Committee of the Board. Cash consideration was \$26,814,000. The remainder of the purchase price was made through the issuance of 3,670,476 Numac common shares with an ascribed value of \$22,133,000. The acquisition has been accounted for using the purchase method, whereby the purchase price was attributed to the assets and liabilities acquired, based on an estimate of their fair values as follows:

Property and equipment	\$ 51,251
Working capital	(2,304)
Purchase price	<u>\$ 48,947</u>

3. PROPERTY, PLANT AND EQUIPMENT

	1996		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties	\$ 1,468,940	\$ 1,024,827	\$ 444,113
Production equipment	324,048	178,055	145,993
Other	16,522	8,763	7,759
	<u>\$ 1,809,510</u>	<u>\$ 1,211,645</u>	<u>\$ 597,865</u>

	1995		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties	\$ 1,323,972	\$ 977,001	\$ 346,971
Production equipment	301,804	153,328	148,476
Other	15,392	6,633	8,759
	<u>\$ 1,641,168</u>	<u>\$ 1,136,962</u>	<u>\$ 504,206</u>

Included in oil and gas properties at December 31, 1996 are costs of \$94,686,000 (1995 – \$56,585,000) related to unproved properties that have been excluded from costs subject to depletion.

As a result of the annual ceiling test evaluation at December 31, 1995, the Corporation reduced the carrying value of its Canadian oil and gas properties by a \$224,906,000 charge to depletion expense (\$168,294,000 net of deferred income taxes). In addition, the Corporation recognized \$17,245,000 of additional depletion expense related to impairment of its foreign oil and gas properties (\$10,086,000 net of deferred income taxes).

4. LONG-TERM DEBT

	1996	1995
Revolving production loan facility (US\$117,000,000)	\$ 160,020	\$ 159,435
7% convertible debentures	30,000	30,000
Non-recourse loan	1,719	1,818
	<u>\$ 191,739</u>	<u>\$ 191,253</u>

The Corporation's unsecured credit facilities with two Canadian chartered banks provide for a \$225,000,000 production loan and a \$30,000,000 operating loan. The production loan facility is a revolving loan which may be extended annually at the option of the banks or converted to a term loan. Under a term loan, the outstanding loan would be repaid in equal payments over a period of five years. The production loan provides for various interest rate options, all of which are based on market rates in effect from time to time. The average effective rate of interest on borrowings under the production loan facility was approximately 6.4% in 1996 (1995 – 6.6%).

The operating loan facility is reviewable annually and may be renewed for up to one year on terms and conditions agreed to by the Corporation and its bankers.

The unsecured 7% convertible subordinated debentures are stated at their fair market value, are redeemable at par, mature in 2002, and are convertible into common shares of Numac until April 14, 1997 at \$13.50 per share. The Corporation is required to make annual sinking fund payments in the years 1998 through 2002 equal to 10% of the outstanding aggregate principal of the debentures at April 15, 1997.

The non-recourse loan from the Alberta Oil Sands Technology and Research Authority is to be repaid from production proceeds from certain petroleum and natural gas properties and is secured by an assignment of these properties.

5. DEFERRED CREDITS AND OTHER LONG-TERM OBLIGATIONS

	1996	1995
Future site restoration	\$ 23,766	\$ 20,696
Office lease obligations	7,576	9,016
Supplementary retirement income benefits	3,742	4,044
Unrealized foreign exchange loss	(5,593)	(6,766)
	<u>\$ 29,491</u>	<u>\$ 26,990</u>

6. SHARE CAPITAL

Authorized:

The Corporation's authorized share capital consists of an unlimited number of common shares and first and second preferred shares.

Issued:

	1996		1995	
	Shares	Amount	Shares	Amount
Common Shares				
Balance, beginning of year	93,399,288	\$ 419,924	93,385,288	\$ 419,835
Issued pursuant to acquisition of SOR ⁽ⁱ⁾	3,670,476	22,133	-	-
Purchase of shares ⁽ⁱⁱ⁾	(118,600)	(540)	-	-
Issued under employee stock option plan ⁽ⁱⁱⁱ⁾	-	-	14,000	89
Balance, end of year	96,951,164	\$ 441,517	93,399,288	\$ 419,924
Common Share Purchase Warrants				
Balance, beginning of year	-	\$ -	9,000,000	\$ 5,400
Expiries ^(iv)	-	-	(9,000,000)	(5,400)
Balance, end of year	-	\$ -	-	\$ -
Total issued share capital		\$ 441,517		\$ 419,924

(i) On November 1, 1996, the Corporation issued 3,670,476 shares at \$6.03 as part consideration for all the issued and outstanding shares of Smart On Resources Inc. ("SOR").

(ii) Effective December 19, 1996 and terminating on December 18, 1997, the Corporation has approved a normal course issuer bid to purchase up to 5% of its issued and outstanding common shares. During 1996, the Corporation purchased 118,600 shares. The excess of purchase price over the book value has been charged to contributed surplus.

(iii) At December 31, 1996, there were 5,421,125 shares reserved for issuance upon exercise of stock options outstanding to employees and former employees of Numac at exercise prices ranging from \$5.38 to \$8.88. The options expire as follows: 251,625 in 1997; 489,600 in 1998; 1,810,800 in 1999; 1,393,600 in 2000; 1,278,000

7. HEDGING ACTIVITIES

The Corporation hedges prices and currency exchange rates related to future crude oil and natural gas sales and interest rates using swap agreements. A swap is a financial derivative instrument whereby the Corporation and a third party agree to exchange, at specified intervals, the difference between an agreed fixed commodity price, interest rate or exchange rate and floating prices or rates calculated by reference to an agreed notional volume or principal amount. There is no obligation to deliver or receive quantities of crude oil or natural gas pursuant to a swap contract.

At December 31, 1996, the Corporation had the following hedging positions in place:

Swap Type	Notional Quantity or Amount	Period	Average Fixed Price or Rate Received	Fair Market Value (\$CDN) at December 31, 1996
Natural Gas				
Sumas index	5.0 million cubic feet per day	Jan 1997	US\$3.08/mcf	\$ (227)
AECO index	4.7 million cubic feet per day	Jan to Dec 1997	CDN\$1.64/mcf	62
West Texas Intermediate crude oil	5,000 barrels per day	Jan to Dec 1997	US\$20.41/Bbl	(6,733)
Foreign exchange	US\$2.5 million per month	Jan to Dec 1997	US\$0.7246/CDN\$	1,288
Interest rate	US\$50 million	Jan to Feb 1997	5.89%	(45)
				<u>\$ (5,655)</u>

The fair market value represents the amount that the swap agreements could have been settled for, given market conditions at December 31, 1996.

At December 31, 1995, the Corporation had the following hedging positions in place:

Swap Type	Notional Quantity or Amount	Period	Average Fixed Price or Rate Received	Fair Market Value (\$CDN) at December 31, 1995
Natural Gas				
NYMEX index	22.8 million cubic feet per day	Jan to Dec 1996	US\$1.89/mcf	\$ (2,930)
Sumas/NYMEX differential	33.5 million cubic feet per day	Jan to Oct 1996	US\$0.45/mcf	9,562
Empress/NYMEX differential	3.0 million cubic feet per day	Jan to Oct 1996	US\$0.75/mcf	208
West Texas Intermediate crude oil	3,600 barrels per day	Jan to Dec 1996	US\$17.90/Bbl	(918)
Foreign exchange	US\$4 million per month	Jan to Dec 1996	US\$0.7263/CDN\$	474
Interest rate	US\$50 million	Jan 1996 to Feb 1997	5.89%	(230)
				<u>\$ 6,166</u>

The fair market value represents the amount that the swap agreements could have been settled for, given market conditions at December 31, 1995. The actual amounts realized on these swap agreements have been included in the table below.

The Corporation has recognized the following hedging gains (losses) for the years ended December 31:

	1996	1995
Natural gas	\$ 6,543	\$ 18,480
Crude oil	(12,842)	(405)
Foreign exchange	639	1,485
Interest rate	(193)	283
	<u>\$ (5,853)</u>	<u>\$ 19,843</u>

8. INCOME AND OTHER TAXES

The provision for income taxes varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rates for the following reasons:

	1996	1995
Canadian federal and provincial income tax rates	44.8%	44.8%
Federal and provincial income tax rates applied to income before taxes	\$ 21,231	\$ (101,315)
Add (deduct) income taxes resulting from:		
Non-deductible Crown payments (net of Alberta Royalty Tax Credit)		
greater (less) than federal resource allowance	1,806	(356)
Depletion and depreciation on acquired assets with		
tax basis less than cost	4,416	46,691
Large corporations tax and provincial capital taxes	3,029	2,855
Other	(24)	4,776
Provision for (recovery of) income and other taxes	\$ 30,458	\$ (47,349)

9. NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share has been calculated based on the weighted average number of common shares outstanding for the year ended December 31, 1996 of 94,008,145 (1995 – 93,398,902). The conversion of debentures and the exercise of stock options would not have a dilutive effect on net income (loss) per share.

10. PENSION PLAN

The present value of the accrued pension obligation and the market value of the pension fund assets for the defined benefit pension plan are as follows:

	1996	1995
Accrued pension obligation	\$ 12,111	\$ 11,722
Pension fund assets	\$ 16,573	\$ 14,404

11. COMMITMENTS

The Corporation leases various types of property and equipment through operating leases. Minimum payments under non-cancellable operating leases with terms of one year or more are as follows:

1997	\$ 2,051
1998	1,845
1999	2,075
2000	1,733
2001	1,733
After 2001	2,570
Total	\$ 12,007

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the 1996 presentation.

(dollar amounts in thousands)

	1996	1995	1994	1993	1992
SUMMARY OF OPERATIONS					
Revenue					
Crude oil and natural gas liquids, less royalties	\$ 126,153	\$ 118,725	\$ 124,690	\$ 88,769	\$ 82,716
Natural gas, less royalties	66,232	72,364	80,943	51,810	30,939
Investment and other income	1,948	2,525	23,316	12,363	13,046
	194,333	193,614	228,949	152,942	126,701
Expenses					
Operating, general and administrative	55,012	59,807	58,048	50,728	43,565
Interest	12,559	13,106	11,220	8,354	15,213
Depletion and depreciation and future site restoration	79,371	104,699	98,531	63,899	69,018
Writedown of property, plant and equipment	-	242,151	-	-	207,452
Loss on termination of lease	-	-	-	7,315	-
	146,942	419,763	167,799	130,296	335,248
Income (loss) before taxes and non-controlling interest	47,391	(226,149)	61,150	22,646	(208,547)
Provision for (recovery of) income taxes					
Current	3,029	2,855	2,785	(4,011)	4,346
Deferred	27,429	(50,204)	31,868	15,363	(86,532)
	30,458	(47,349)	34,653	11,352	(82,186)
Non-controlling interest	-	-	37	(209)	(309)
Net income (loss) for the year	\$ 16,933	\$ (178,800)	\$ 26,460	\$ 11,503	\$ (126,052)
Funds from operations	\$ 122,058	\$ 117,500	\$ 144,818	\$ 97,782	\$ 63,015
Capital expenditures	\$ 141,464	\$ 116,772	\$ 168,093	\$ 118,483	\$ 53,225
Acquisition of Smart On Resources Inc.	51,251	-	-	-	-
Investment in Canadian Roxy Petroleum Ltd.	-	-	12,885	-	-
Acquisition of Numac Oil & Gas Ltd.	-	-	-	164,960	-
	\$ 192,715	\$ 116,772	\$ 180,978	\$ 283,443	\$ 53,225

OPERATING

Average daily production for the year,

before deduction of royalties:

Crude oil and natural gas liquids (barrels per day)	18,860	19,097	20,536	15,698	14,583
Natural gas (millions of cubic feet per day)	128.7	150.8	138.7	99.8	78.2

Proved reserves, before deduction of royalties:

Crude oil and natural gas liquids (thousands of barrels)	51,459	46,535	51,216	50,957	37,000
Natural gas (billions of cubic feet)	389.0	390.9	490.3	494.8	383.3

Selected Financial Ratios

	1996	1995
Net income per common share (basic) (\$/share)	0.18	(1.91)
Cash flow per common share (basic) (\$/share)	1.30	1.26
Debt, net of working capital/cash flow	1.30	1.20
Debt, net of working capital/debt plus equity	0.29	0.28
Operating costs (\$/BOE)	3.92	3.92
General and administrative costs (\$/BOE)	0.81	0.87
Netbacks (\$/BOE)	12.65	11.40
Cash flow per BOE of production (\$/BOE)	10.51	9.42

Quarterly Financial Information

(thousands of dollars)	Quarters				Full Year
	First	Second	Third	Fourth	
1996					
Gross production revenue	55,531	57,600	58,624	68,242	239,997
Net income	3,283	3,480	3,472	6,698	16,933
Funds from operations	27,349	28,808	29,667	36,234	122,058
1995					
Gross production revenue	63,628	60,585	51,937	51,577	227,727
Net income (loss)	3,138	2,365	(984)	(183,319)	(178,800)
Funds from operations	35,238	33,036	25,818	23,408	117,500

Stock Exchange Listing and Trading of Numac Shares

Numac shares are listed for trading on The Toronto Stock Exchange (TSE), The Montreal Exchange (ME) and the American Stock Exchange (AMEX). The following table sets forth the price range and trading volume of Numac's Common Shares for each quarter of 1996, as reported by the TSE and AMEX:

	TSE (CDN Dollars)			AMEX (US Dollars)		
	High	Low	Volume	High	Low	Volume
1996						
First quarter	\$ 6.25	\$ 5.00	1,339,552	\$ 4.50	\$ 3.75	156,300
Second quarter	6.45	4.90	4,831,913	4.75	3.75	115,300
Third quarter	6.35	5.40	1,705,850	4.69	4.00	91,500
Fourth quarter	6.45	5.25	3,333,288	4.81	3.81	195,200
Full year	6.45	4.90	11,210,603	4.81	3.75	558,300

Abbreviations in this annual report

Bbl	– barrel	Mcf	– thousand cubic feet
Mbbls	– thousand barrels	Mmcf	– million cubic feet
Bbls/day	– barrels per day	Mmcf/day	– million cubic feet per day
BOE	– barrels of oil equivalent, which is computed on the basis of 10 Mcf of natural gas equalling 1 Bbl of oil	Bcf	– billion cubic feet

Directors

Stewart D. McGregor⁽¹⁾
*Chairman and
Chief Executive Officer
Numac Energy Inc.
Calgary, Alberta*

Douglas W. T. Chan⁽¹⁾⁽³⁾
*Executive Director
New World Development
(China) Limited
Hong Kong*

Colin K. Y. Lam
*Vice-Chairman
Henderson Land
Development Co. Ltd.
Hong Kong*

Daniel K. K. Lam⁽²⁾⁽³⁾
*Vice-President and Director
Thomson Kernaghan & Co. Ltd.
Toronto, Ontario*

William S. McGregor
*Honorary Chairman
Numac Energy Inc.
Edmonton, Alberta*

W. Darcy McKeough⁽¹⁾⁽²⁾
*McKeough & Sons Ltd.
Chatham, Ontario*

Michael C. M. Pei⁽¹⁾
*Director
Tai Fook Finance
Company Limited
Hong Kong*

S. F. Ambrose So⁽²⁾
*Director
Shun Tak Holdings Ltd.
Hong Kong*

Donald J. Taylor⁽¹⁾⁽²⁾⁽³⁾
Jackson's Point, Ontario

Bruce W. Watson⁽¹⁾⁽³⁾
*President
Wangler Resources Ltd.
Calgary, Alberta*

Officers

Stewart D. McGregor
*Chairman and
Chief Executive Officer*

J. R. Richard Couillard
*Senior Vice-President,
Exploration and Production*

John E. Flynn
Vice-President, Operations

Dale J. Hohm
*Vice-President, Finance and
Corporate Secretary*

Michel E. Scott
*Vice-President, Marketing and
Business Development*

Lorraine K. McVean
Assistant Corporate Secretary

John W. Nearing
Controller

Auditors

Price Waterhouse
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Osler, Hoskin & Harcourt
Calgary, Alberta

Bankers

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Bank of Nova Scotia

Transfer Agent & Registrar

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Shareholder Inquiries

*Information regarding the
Company, including the Annual
Information Form filed with
Canadian securities regulators
and the Form 40-F filed with
the Securities and Exchange
Commission in the United States,
may be obtained by contacting
Dale J. Hohm, Vice-President,
Finance and Corporate Secretary
of the Company.*

(1) member of the Executive Committee
(2) member of the Compensation Committee
(3) member of the Audit Committee



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